

VIRGINIA FINANCIAL PERSPECTIVE

A REPORT TO THE CITIZENS OF THE COMMONWEALTH FOR FISCAL YEAR 2000

Prepared by the Department of Accounts
December 31, 2000

James S. Gilmore, III
Governor

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EXECUTIVE SUMMARY - PURPOSE OF THIS REPORT

The purpose of this report is to summarize and simplify the presentation of information contained in the Comprehensive Annual Financial Report (CAFR) of the Commonwealth of Virginia. The Commonwealth's financial statements are prepared in accordance with generally accepted accounting principles and are independently audited by the Auditor of Public Accounts. Much of the information in the audited financial statements is necessarily technical and complex. As a result, the full financial statements may not be particularly useful to the citizens of the Commonwealth who wish to better understand state government finances.

Over the last several years, state and local governments have begun issuing simplified financial reports. These are often referred to as *popular reports*. These reports are intended to better inform the public about their government's financial condition, without excessive detail or the use of technical accounting terms.

This report summarizes and explains the information contained in the financial statements for fiscal year 2000, along with other information on the Commonwealth's finances, in easily understood terms. This report represents the ongoing commitment of Commonwealth officials to keep Virginians informed about state finances, and to be accountable in all respects for the receipt and expenditure of public funds.

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Virginia's Economy

Each year the CAFR includes a section describing the Commonwealth's economic outlook. For FY 2000 an economist at the University of Virginia's Weldon Cooper Center for Public Service prepared this review of the Virginia economy. FY 2000 represented another banner year for the national economy as the remarkable expansion after the 1990-91 recession continued. Virginia was a full participant in the buoyant U.S. economy.

Virginia's economy, like that of the nation, showed solid performance in the first fiscal year of the new millennium. Despite slow growth in the Federal sector and losses in such traditional industries as textiles and apparel manufacturing, the State experienced strong net gains. Virginia is a leader in telecommunications, semiconductors, microelectronics, information technology, medical research and biotechnology, and chemical synthesis research. Dulles International Airport and the Hampton Roads ports are important factors in the State's increasing role as a major exporter.

The State's unemployment rate was only 2.7 percent in FY 2000, about the minimum possible after allowing for normal frictional unemployment (**Figure 1**). This was the lowest unemployment rate achieved in the half century for which data are available. Compared to the national average, Virginia's rate was consistently lower. In the last two years the rate was two-thirds of the national rate.

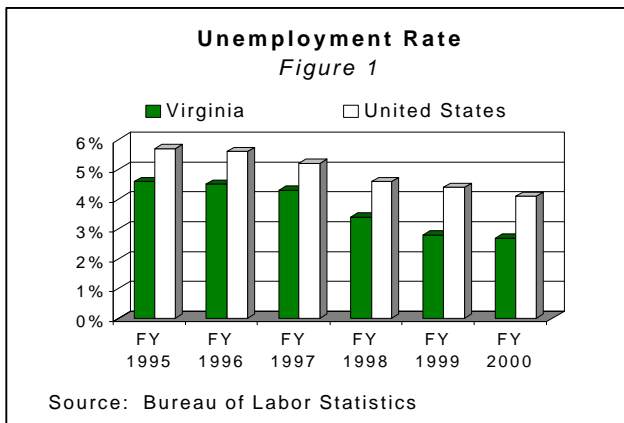
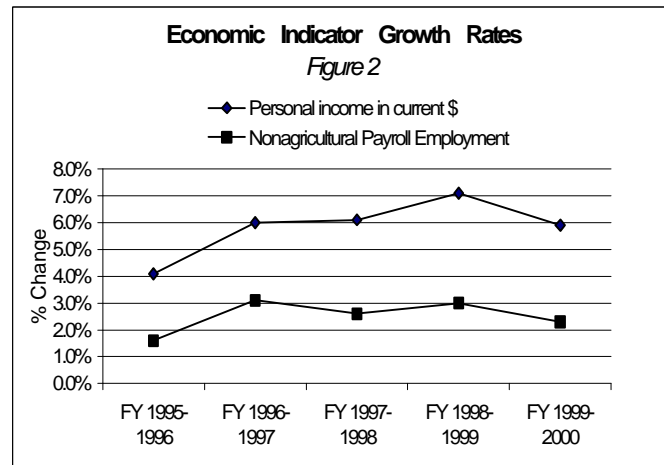


Figure 2 shows that Virginia's nonagricultural payroll employment grew by 2.3 percent in FY 2000. The private services sector accounted for nearly half of the net gain in jobs with the majority in the business services subsector that includes many of the State's high tech jobs. Other sectors that accounted for large numbers of new private jobs were retailing, transportation and public utilities, construction, and finance, insurance, and real estate.

Manufacturing experienced a net loss of 1,400 jobs. Although there were gains in transportation equipment and industries associated with construction, they were more than offset by losses in the textile and apparel industries that continue to be under pressure from foreign competition.

In the public sector, the net increase in State government employment was only 200, but at the local level, there was a 7,900 increase. The Federal government, a large employer in Virginia, accounted for a net increase of only 200 jobs. In earlier years the Federal job count decreased. Much of this decline was attributable to a switch in Federal policy from direct employment to contracting, mainly in the private services sector. The Federal job count is restricted to civilian employees. The military continues to be an important part of the economy, mainly in Northern Virginia and the Hampton Roads area. The latest data for military employment are for CY 1998 when the total was 164,865 service personnel. From 1995 to 1998 there was a decline of 10.8 percent, higher than the U.S. decline of 8.5 percent.



Income, another principal measure of economic conditions, performed well in FY 2000. In the current low inflation environment much of the growth in personal income represents real gains. In FY 2000 Virginia's real personal income grew by 3.6 percent, nearly the same as the national increase of 3.7 percent. Growth in Virginia personal income was very similar to that of the nation for the FY 1995 to FY 2000 period.

Virginia's population as of July 1999 was 6.9 million, giving it a ranking of twelfth largest among the states. The Old Dominion accounted for 2.5 percent of the national total. In the most recent year Virginia grew by 1.2 percent, compared to 0.9 percent for the nation.



This section contains **Financial Statement Information** for the Commonwealth of Virginia for the fiscal year ending June 30, 2000.

When Virginia state government reports on its finances, it does so on the basis of a *fiscal year* which starts on July 1 and ends the following June 30. All information presented in this report is for the fiscal year that began on July 1, 1999, and ended on June 30, 2000. This is referred to as fiscal year 2000, or FY 2000.

Virginia's financial information is prepared by the Department of Accounts, an executive branch agency, under the direction of the Governor and the Secretary of Finance. The information is then audited by the Auditor of Public Accounts, who is an official of the legislative branch of government. In this way, the audit process is independent. The financial information for FY 2000 was audited and received an unqualified auditor's opinion.

Virginia accounts for its revenues and expenditures within various *funds*. The largest fund supporting the operation of state government is the General Fund, which accounts for the majority of receipts from income and sales taxes. Another important fund is the Commonwealth Transportation Fund, which receives revenues from gasoline taxes, vehicle registration fees and a portion of sales taxes. A third fund is the Higher Education Fund, which accounts for financial activity of state colleges and universities. A fourth large fund is the Pension Trust Fund, which includes the assets of the state employees' pension system. The Enterprise Fund includes two other activities familiar to most Virginians, the state lottery and the sale of alcoholic beverages.

Virginia accounts for its revenues and expenditures under two different methods of accounting. The Virginia Constitution and laws passed by the General Assembly require that all accounting be on a *cash basis*. This means that revenue is recognized when cash is received and expenditures are recognized when cash is paid out. Cash basis accounting is simple and easily verified. Therefore, it is the best way to demonstrate that state agencies are complying with laws that govern spending.

The other method of accounting used in Virginia involves the application of *generally accepted accounting principles*, or *GAAP*. GAAP is defined by national standard setting bodies, and is the method of accounting required when Virginia sells bonds. Only financial information prepared on a GAAP basis can be audited in accordance with accepted practice and receive an unqualified opinion from the Auditor of Public Accounts.

Commonwealth Balance Sheet and Income Statement- GAAP Basis

A *balance sheet* summarizes the assets, liabilities and equity of an organization. As of the end of FY 2000, Virginia had *assets* (i.e., cash, investments, property and amounts owed to the state) on a GAAP basis of \$86.7 billion. These assets were partially offset by liabilities (i.e., amounts owed by the state to others) of \$24.8 billion, leaving state government with a *total equity* (the amount left after liabilities are subtracted from assets) of \$61.9 billion. **Figure 3** is a condensed balance sheet for the Commonwealth as of June 30, 2000.

A balance sheet for government is similar to one for a private sector business in some respects, but different in others. One of the principal differences is the item under the assets, which is labeled as *Amount to be Provided for the Retirement of Long Term Debt and Pension Liability*.

This item represents the value of legally enforceable commitments of the Commonwealth, and its various authorities, to provide funds for the payment of long term debt, primarily tax-exempt bonds, and to provide funds for the payment of future pension costs, when they come due.

The income statement (**Figure 4**) summarizes the results of the State's operations, on a GAAP basis, for the fiscal year. Virginia recognized \$18.4 billion in revenues and \$1.5 billion in other sources, which was used to pay for \$17.0 billion of expenditures and \$2.3 billion of other uses.

Although the total equity of Virginia is substantial and confirms the overall financial health of the Commonwealth, it is equally important to look at the financial condition of some of the individual *funds*.

Information is presented in this report on both the cash and GAAP basis of accounting, depending on which is more informative. Labels have been used to note which basis of accounting is being shown.

This Popular Report contains information from only selected funds and account groups and does not include all of the State's component units. Component units are legally separate entities that are accountable to the State. Only the balance sheet on page 4 includes all of the State's funds, account groups, and component units.

The full financial statements of the Commonwealth of Virginia, together with other economic and demographic information, are published in Virginia's Comprehensive Annual Financial Report, or CAFR. Requests for copies of the CAFR should be directed to the address given on the last page of this report.

Balance Sheet (GAAP Basis)

As of June 30, 2000

*(Dollars in Millions)**Figure 3***ASSETS:**

Cash and Investments	\$ 59,947
Accounts and Other Receivables	10,957
Due from Other Funds	592
Inventory	252
Property, Plant and Equipment	10,989
Amount Available for Long-Term Debt	21
Amount to be Provided for Retirement of Long-Term Debt and Pension Liability	3,597
All Other Assets	302

Total Assets \$ 86,657

LIABILITIES and EQUITY:**Liabilities:**

Accounts and Other Payables	\$ 1,571
Long Term Liabilities	13,704
Due to Other Governments	440
Due to Other Funds	592
Deferred Revenues and Credits	619
Security Lending Obligations	2,581

All Other Liabilities	5,231
Total Liabilities	<u>24,738</u>

Equity:

Higher Education Property and Equipment	4,638
Other State Property and Equipment	4,032
Contributed Capital	1,035
Fund Balances /Retained Earnings	52,214
Total Equity	<u>61,919</u>

Total Liabilities and Equity \$ 86,657

Income Statement (GAAP Basis)

For the Fiscal Year Ended June 30, 2000

*(Dollars in Millions)**Figure 4***REVENUES:**

Taxes	\$ 12,246
Rights and privileges	585
Institutional Revenue	415
Interest, Dividends, Rents, and Other	
Investment Income	331
Unclaimed Property Sales	35
Federal Grants and Contracts	3,957
Proceeds from Security Lending Transactions	9
Other	831
Total Revenues	<u>18,406</u>

OTHER FINANCING SOURCES

Total Operating Transfers In	1,106
Proceeds From Capital Leases and Sale of Bonds	390
Total Other Sources	<u>1,496</u>

**TOTAL REVENUES AND OTHER
SOURCES**\$ 19,902**EXPENDITURES:**

General Government	\$ 997
Education	4,417
Transportation	2,672
Resources and Economic Development	631
Individual and Family Services	5,886
Administration of Justice	1,930
Debt Service and Payments for Securities Lending Transactions	316
Capital Outlay	155
Total Expenditures	<u>17,004</u>

OTHER FINANCING USES

Total Operating Transfers Out	2,276
Total Other Uses	<u>2,276</u>

**TOTAL EXPENDITURES AND OTHER
USES**\$ 19,280

General Fund – Cash Basis

During FY 2000, the General Fund received \$11.3 billion in resources. **Figure 5** illustrates the various revenue sources. Individual income taxes accounted for 60% of the resources, while sales taxes made up 20%. These revenues plus other direct revenues from outside sources totaled \$10.8 billion, or 96%. The remaining monies totaling \$455 million came through transfers from other funds, including alcoholic beverage sales and lottery profits.

Revenues (not including transfers) increased by \$1.1 billion over FY 1999. Individual income tax revenues, which grew by 12% compared to last year, played the major role in this growth.

General Fund disbursements, including transfers, for FY 2000 (**Figure 6**) totaled \$11.0 billion. Expenditures totaled \$9.1 billion and transfers to other funds were \$1.9 billion. Education accounted for 47%, including direct state aid for primary and secondary schools and General Fund transfers to support state colleges and universities. Support for social services, Medicaid, public health, and

mental health consumed 21% of the General Fund. Public safety disbursed 16%, while only 7% was used to support the administration of general governmental operations.

Expenditures (not including transfers) increased by \$811 million over the prior year. Of the total increase, Individual and Family Services accounted for 31%, Education accounted for 26%, and public safety for 15%.

General Fund revenues exceeded expenditures and net transfers by \$256 million in FY 2000. In other words, the General Fund had an operating profit for the year. The profit resulted from increased tax receipts coupled with expenditures that were less than budgeted.

Figure 7 shows the General Fund balance - cash basis - at the end of each year since 1996. Virginia's General Fund balance at the end of FY 1996 was \$476.3 million. FY 1997's \$460.9 million profit raised the balance to \$937.2 million. FY 1998's strong result boosted the balance to \$1,444.2 million. FY 1999's continuing strong economy brought the balance to \$1,599.6 million. FY 2000 saw an increase of \$255.7 million, bringing the balance to \$1,855.3 million.

The balances shown in **Figure 7** are made up of "committed" funds, "available" funds, and the "rainy

Balances are "committed" if there are plans in place for their use. "Available" balances may be used by the Governor and General Assembly for new projects or programs. At the end of FY 2000 there was no available balance, compared to an available balance of \$8.2 million at the end of FY 1999.

The "rainy day" fund is required by an amendment to the State Constitution, which was approved by the voters on November 7, 1992. This fund, formally named the Revenue Stabilization Fund, is a reserve of fund balance which can only be used if state revenues decline sharply from the previous year. Reserved funds must be appropriated by the General Assembly when revenue collections are strong compared to the average for the previous six years.

The total amount reserved in FY 2000 is \$677.9 million. It is made up of \$79.9 million from 1993 collections, \$66.6 million from 1995 collections, \$58.3 from 1996 collections, \$123.8 million from 1997 collections, \$194.1 million from 1998 collections, \$103.3 million from 1999 collections and \$51.9 million in interest. Collections for FY 1994 did not require a contribution. An estimated contribution of \$187.1 million will be made based on collections in FY 2000.

Figure 5
General Fund Revenue
FY 2000, Cash Basis
(Dollars in Millions)

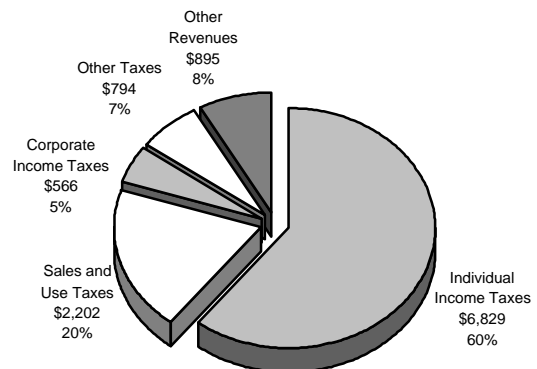
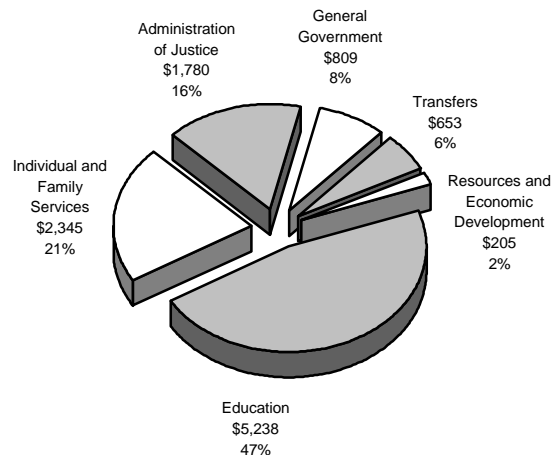
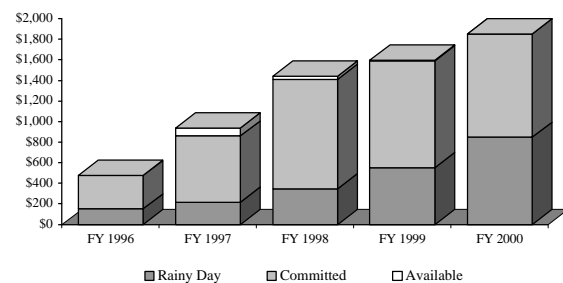


Figure 6
General Fund Disbursements
FY 2000, Cash Basis
(Dollars in Millions)



General Fund Balance - Cash Basis
Highlighting the Available Fund Balance
(Dollars in Millions)

Figure 7

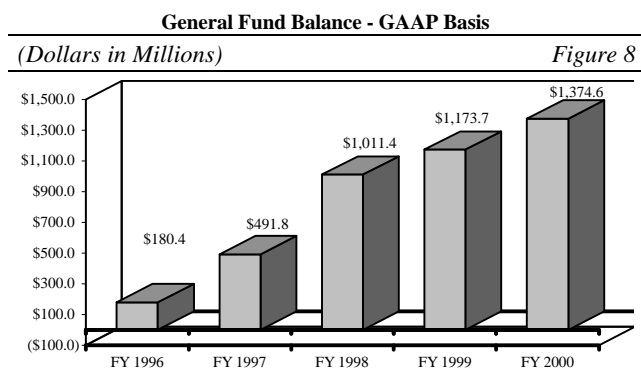


General Fund - GAAP Basis

When the General Fund was accounted for on a *GAAP basis*, the fund had a positive balance of \$1,374.6 million in FY 2000, compared to a balance of \$1,173.7 million in FY 1999 (**Figure 8**). Virginia fully adopted GAAP financial reporting in FY 1983, and experienced GAAP deficits from FY 1990 through FY 1992 as a result of a recession. Another deficit in FY 1995 was primarily the result of a federal retiree lawsuit. Beginning with FY 1996, Virginia has experienced positive GAAP fund balances. GAAP deficits may occur in Virginia without violating the state Constitution or statutes that prohibit deficit spending. However, if a General Fund GAAP deficit were to continue over time, agencies that rate state debt could view this as a problem for state finances.

GAAP accounting requires that Virginia recognize several future liabilities which reduce fund balances to a greater degree than is recognized on the cash basis of accounting. Two of these liabilities are particularly significant (**Figure 9**). One is for *estimated tax refunds due* of \$356.1 million, which is an estimate of the state income taxes withheld during FY 2000 that will eventually be refunded. The other item is an amount of estimated *Medicaid claims payable* of \$145.6 million, which represents medical services rendered in prior years that will not be paid for until FY 2001.

Figure 9 compares the General Fund on a cash and GAAP basis of accounting.



Analysis of General Fund Balance

Cash Basis versus GAAP Basis

For Fiscal Years Ended June 30, 2000 and 1999

(Dollars in Millions)		Figure 9	
		FY 2000	FY 1999
Fund Balance, Cash Basis		\$ 1,855.3	\$ 1,599.6
ADD:			
Sales Taxes Receivable	218.8		234.5
Withholding Taxes Receivable	294.3		214.8
Other Receivables	83.7		125.8
Inventory	33.9		35.0
Other Accrued Items	(26.8)		(30.7)
Total to be Added	603.9		579.4
LESS:			
Tax Refunds Payable	193.7		135.3
Estimated Tax Refunds Due	356.1		357.0
Medicaid Claims Payable	145.6		158.6
Sales Taxes Due to Localities	138.4		138.0
Other Accrued Items	250.8		216.4
Total to be Subtracted	1,084.6		1,005.3
Difference	(480.7)		(425.9)
Fund Balance, GAAP Basis		\$ 1,374.6	\$ 1,173.7

Commonwealth Transportation Fund - Cash Basis

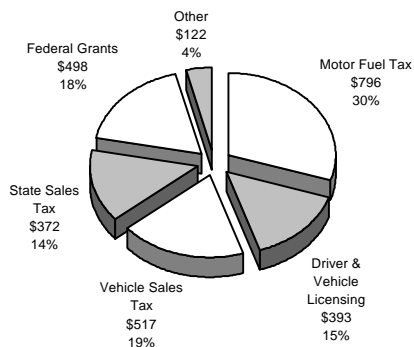
The Commonwealth Transportation Fund pays for the construction and maintenance of state highways. The fund also provides monies for other modes of transportation including rail, bus, aviation and seaports.

The size of this fund reflects the fact that Virginia is one of only a few states that includes essentially all roads within the state highway system. Virginia has over 66,644 miles of state roads.

The Commonwealth Transportation Fund (**Figure 10**) is classified as a *special revenue fund* because revenues of the fund come from various taxes and fees that are restricted for use in the support of transportation programs.

These revenue sources include the tax on motor fuel, vehicle registration and titling fees, and driver licensing fees. Also, since 1986, one half cent of the state's sales tax is deposited into this fund.

Figure 10
Commonwealth Transportation Fund
Revenue Sources
FY 2000, Cash Basis
(Dollars in Millions)



During FY 2000, the Commonwealth Transportation Fund had receipts and expenditures of \$2.7 billion on a cash basis and on a GAAP basis. At the end of FY 2000, the fund had a balance of \$737 million measured on a cash basis. On a GAAP basis, the fund balance was \$711 million.

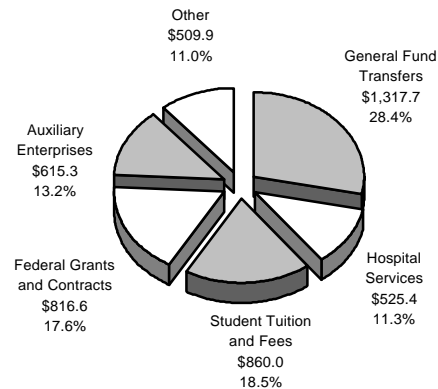
Highway construction projects often require several years to complete. As of the end of FY 2000, the state had \$1.7 billion in outstanding construction contracts for various highway projects. State revenues contribute approximately 72.8% of the funding for these projects. The federal government provides 18.6%, and 8.6% comes from bond proceeds. Local governments also contribute to the cost of highway construction.

Higher Education Fund - GAAP Basis

The Higher Education Fund accounts for transactions related to resources received and used for the operation of the Commonwealth's institutions of higher education and one teaching hospital. In FY 2000, Virginia colleges and universities had total current revenues and other sources of \$4.6 billion, which was a 5.2% increase from FY 1999. Current revenues generated \$3.2 billion. Revenues are derived from numerous sources including student tuition and fees, contracts, grants, private gifts, and sales and services through the hospital and auxiliary enterprises. Additionally, colleges and universities received transfers of \$1.4 billion. The General Fund was the source of \$1.3 billion of these transfers.

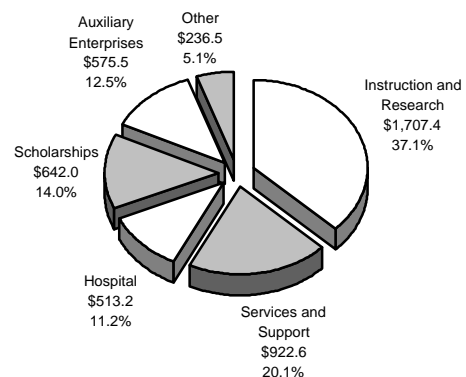
In terms of total resources for higher education in Virginia (**Figure 11**), the General Fund was the major contributor at \$1.3 billion in FY 2000, followed by student tuition and fees of \$860 million, federal grants and contracts of \$817 million, sales and services from hospitals and auxiliary enterprises (\$525 million and \$615 million, respectively), and private grants, gifts and other sources of \$510 million.

Figure 11
Higher Education Fund
Revenue Sources
FY 2000, GAAP Basis
(Dollars in Millions)



Total current expenditures and other uses (**Figure 12**) totaled \$4.6 billion, a 5.4% increase from FY 1999. Spending for instruction and research of \$1.7 billion accounted for 37.1% of higher education expenditures in FY 2000, followed by student services and support of \$923 million, scholarships and fellowships of \$642 million, auxiliary enterprises expenses of \$575 million, teaching hospital expenses of \$513 million, and other expenses and transfers of \$236 million.

Figure 12
Higher Education Fund
Expenditures and Uses
FY 2000, GAAP Basis
(Dollars in Millions)



Virginia colleges and universities have a total equity of \$7.5 billion, including \$4.6 billion in land, buildings and equipment. Colleges and universities account for 53.5% of the total property owned by the Commonwealth. The value of college and university endowments totaled \$1.9 billion at the end of FY 2000.

Pension Trust Fund - GAAP Basis

The Commonwealth maintains a number of funds that are managed for the benefit of various groups and institutions. The largest of these is the pension trust fund for state employees. This fund ended FY 2000 with a total equity of \$40.8 billion, and accounts for 78.2% of the Commonwealth's total equity held in all funds. During FY 2000 the fund received \$1.3 billion in contributions and earned \$5.3 billion on investment holdings. The increase in net assets after the payment of retirement benefits, refunds and operating costs was \$5.2 billion (**Figure 13**).

On November 5, 1996, Virginia voters approved an amendment to the Constitution of Virginia which provided that funds of the Virginia Retirement System are trust funds held separate from other state funds. This amendment safeguards the trust funds from being used for any purpose other than paying benefits to members and beneficiaries. The amendment does not change the way the System is funded or organized.

Statement of Changes in Plan Net Assets Pension Trust Fund - GAAP Basis For the Fiscal Year Ended June 30, 2000

<i>(Dollars in Thousands)</i>	<i>Figure 13</i>
Additions:	
Contributions	\$ 1,309,914
Investment Income:	
Interest, Dividends and Other	
Investment Income	5,392,297
Securities Lending Income	123,523
Total Investment Income	5,515,820
Less Investment Expenses	222,024
Net Investment Income	5,293,796
Other Revenue	546
Total Additions	6,604,256
Deductions:	
Retirement Benefits	1,184,842
Refunds to Former Members	83,957
Retiree Health Insurance Credits	50,456
Insurance Premiums and Claims	83,025
Administrative Expenses	19,488
Other Expenses	196
Total Deductions	1,421,964
Net Increase	5,182,292
Net Assets, July 1, 1999	35,659,081
Net Assets, June 30, 2000	\$40,841,373

A separately issued financial report that includes financial statements and required supplemental

information is publicly available. Copies may be obtained by writing to the Virginia Retirement System, P. O. Box 2500, Richmond, Virginia 23218-2500.

Virtually all pension systems experience some gap between the amount that has been contributed and the amount that will be required to honor all promised benefits to both current and future retirees. This gap arises when benefits are added to the plan, and can also be produced by differences between the assumptions that are made in financing the trust fund and actual experience.

Employer and employee contributions are required by the *Code of Virginia*. The State pays the 5% of employees' annual salaries that employees are required to contribute to the retirement system.

Employer contributions made for FY 2000 totaled \$210.9 million. This was less than the actuarially determined Annual Required Contribution of \$258.0 million, but did meet statutory requirements. The State has elected to allow employer contributions to include an annual amount that would phase in the funding requirements over a five-year period ending with FY 2002. When compared to other plans similar to Virginia's, the funding statistics indicate that Virginia's plans are adequately funded and financially sound. The pension obligation is included in the calculations of future state contribution rates so that a portion of this obligation is paid off each year.

State Lottery Fund - GAAP Basis

The lottery fund (**Figure 14**) accounts for all receipts and disbursements from the sale of lottery tickets for the several different kinds of games.

During FY 2000, the Lottery had revenues of \$973 million and expenses, including lottery prize payments, of \$649 million. Income for the year, including interest earnings, was \$334 million. During FY 2000, \$323 million was transferred to the General Fund as required by law, and another \$11 million was transferred to the Literary Fund.

**Revenues, Expenses and Changes in
Retained Earnings
State Lottery - GAAP Basis
For the Fiscal Year Ended June 30, 2000**

<i>(Dollars in Thousands)</i>	<i>Figure 14</i>
Operating Revenues:	
Charges for Sales and Services	\$ 972,972
Total Operating Revenue	972,972
Operating Expenses:	
Personal Services	17,331
Contractual Services	93,414
Supplies and Materials	7,652
Depreciation	4,208
Lottery Prize Expense	526,424
Total Operating Expenses	649,029
Operating Income	323,943
Nonoperating Revenues:	
Interest, Dividends and Rents	8,846
Other	1,374
Total Nonoperating Revenues	10,220
Income Before Transfers and Changes	334,163
Operating Transfers In	58
Transfers to the General Fund	(334,415)
Net Income/(Loss)	(194)
Retained Earnings July 1, 1999	(759)
Retained Earnings June 30, 2000	\$ (953)

Alcoholic Beverage Control Fund - GAAP Basis

The "ABC" fund accounts for the receipts from the sale of alcoholic beverages. In FY 2000, ABC profits of \$27 million were distributed to the General Fund to use for current operations. Another \$12 million in ABC funds was transferred to the General Fund for alcohol treatment and rehabilitation programs. Total ABC operating income for FY 2000 was \$39 million on \$316 million in total sales.

Risk Management (Self-Insurance) Program - GAAP Basis

The Commonwealth is "self-insured" for workers' compensation, property damage, general (tort) liability, medical malpractice and automobile insurance coverage. At the end of FY 2000, the self-insurance program had cash and other assets of \$84 million, while the estimated liability for claims payable was \$174 million. The program had additional liabilities of \$25 million, which resulted in a GAAP deficit balance of \$115 million.

The self-insurance program remains solvent because additional cash is constantly being provided from premiums paid by state agencies.

Debt Administration

The total outstanding debt on the books of the Commonwealth as of the end of FY 2000 was \$13.7 billion (**Figure 15**). Long term bonds and notes represent 92.5% of all debt, with the remaining 7.5% consisting of compensated absences, pension liabilities, capital leases, installment purchase contracts and various other payables.

Debt on the books of the Commonwealth can be classified into three categories: general obligation bonds of Virginia taxpayers, limited obligations, which may use tax revenue to pay principal and interest (Other Tax Supported), and debt issued by state-created authorities and institutions of higher education, which is not an obligation of Virginia taxpayers and does not use tax revenues (Non-Tax Supported).

As illustrated in **Figure 15**, a total of \$1.0 billion, or 7.6% of all debt, is a general obligation of Virginia taxpayers and supported by a pledge of all tax revenues and other monies of the Commonwealth. This kind of pledge is also referred to as "full faith and credit" debt. General obligation debt is issued as provided for in the State Constitution.

State Debt		
Tax Supported and Non-Tax Supported		
As of June 30, 2000		
<i>Dollars in Thousands</i>	<i>Figure 15</i>	
TAX SUPPORTED DEBT		
General Obligation Bonds:		
Public Facilities Bonds	\$ 460,405	3.3%
Parking Facilities Bonds	11,010	0.1%
Transportation Facilities Bonds	194,444	1.4%
Higher Education Bonds	380,332	2.8%
Total General Obligation Bonds	1,046,191	7.6%
Other Tax Supported Debt:		
Transportation	955,950	7.0%
Port Authority	102,655	0.7%
Public Building Authority	1,049,984	7.7%
Innovative Technology Authority	11,656	0.1%
College Building Authority	272,460	2.0%
Long Term Capital Lease Payable	242,427	1.8%
Compensated Absences	462,387	3.4%
Pension Liability	263,038	1.9%
Biotechnology Research Park	29,195	0.2%
Regional Jail Construction	59,671	0.4%
Other Long Term Obligations	59,999	0.4%
Total Other Tax Supported Debt	3,509,422	25.6%
Total Tax Supported Debt	4,555,613	33.2%
NON-TAX SUPPORTED DEBT		
Higher Education	376,113	2.8%
Housing Development Authority	5,441,287	39.7%
Pocahontas Parkway Association	393,238	2.9%
Public School Authority	1,907,048	13.9%
Virginia Resources Authority	454,179	3.3%
Other Long Term Obligations	576,457	4.2%
Total Non-Tax Supported Debt	9,148,322	66.8%
Total Commonwealth Debt	\$13,703,935	100.0
		%

The next category of debt, limited obligations which may use tax revenue, does not carry the "full faith and credit" of the Commonwealth, but does use certain tax revenues, in whole or in part, to pay principal and interest. Examples of other tax supported debt include certain bonds issued by the Virginia Port Authority to improve Virginia ports, most highway construction bonds, bonds issued to construct state office buildings, hospitals and prisons, and capital leases and installment purchase contracts entered into by state agencies and institutions of higher education. A total of \$3.5 billion of this type of tax supported debt was outstanding at the end of FY 2000. This is 25.6% of all debt on the books of the Commonwealth.

Non-Tax Supported Debt makes up 66.8% of all debt in the Commonwealth. The majority of this debt is issued by various authorities that are created under state law to issue bonds to finance various programs considered to provide a benefit to the public. Total debt in this category at the end of FY 2000 was \$9.1 billion.

The largest of these authorities is the Virginia Housing Development Authority, which has \$5.4 billion in debt outstanding secured by various mortgages. Other issuers include the Virginia Public School Authority, Pocahontas Parkway Association, and the Virginia Resources Authority. Colleges and teaching hospitals also issue bonds secured only by fees paid for services. These bonds do not use state taxes to pay principal and interest.

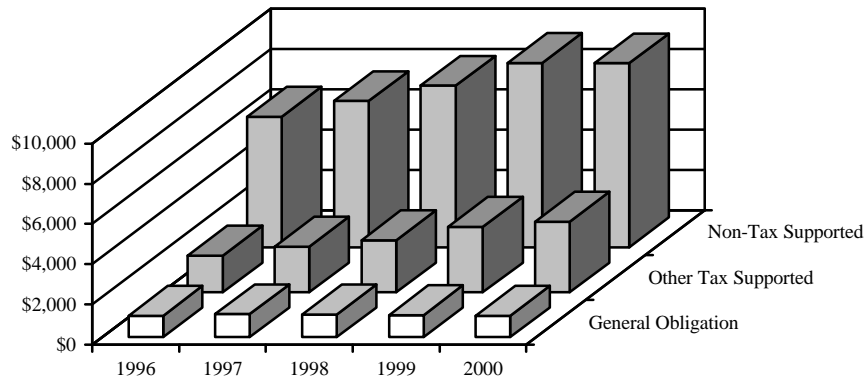
In each case, the debt of these authorities is secured only by the revenues of the issuing body. No tax revenues are used to support this debt and it is not considered a legal obligation of the Commonwealth. However, \$2.4 billion of the total carries a "moral obligation" promise by the Commonwealth to consider funding any deficiencies in debt service reserves from tax revenues. To date, no such deficiencies have occurred.

Figure 16 summarizes the outstanding debt owed by the Commonwealth in all categories over five fiscal years.



Figure 16
Categories of Debt

(Millions of Dollars)



The following sections discuss **Other Financial Information** which may be of interest to the reader. Much of the information was reported in the State Comptroller's "Report on Statewide Financial Management and Compliance for the quarter ended June 30, 2000." This information is not included in the audited financial statements.

Cash Balances

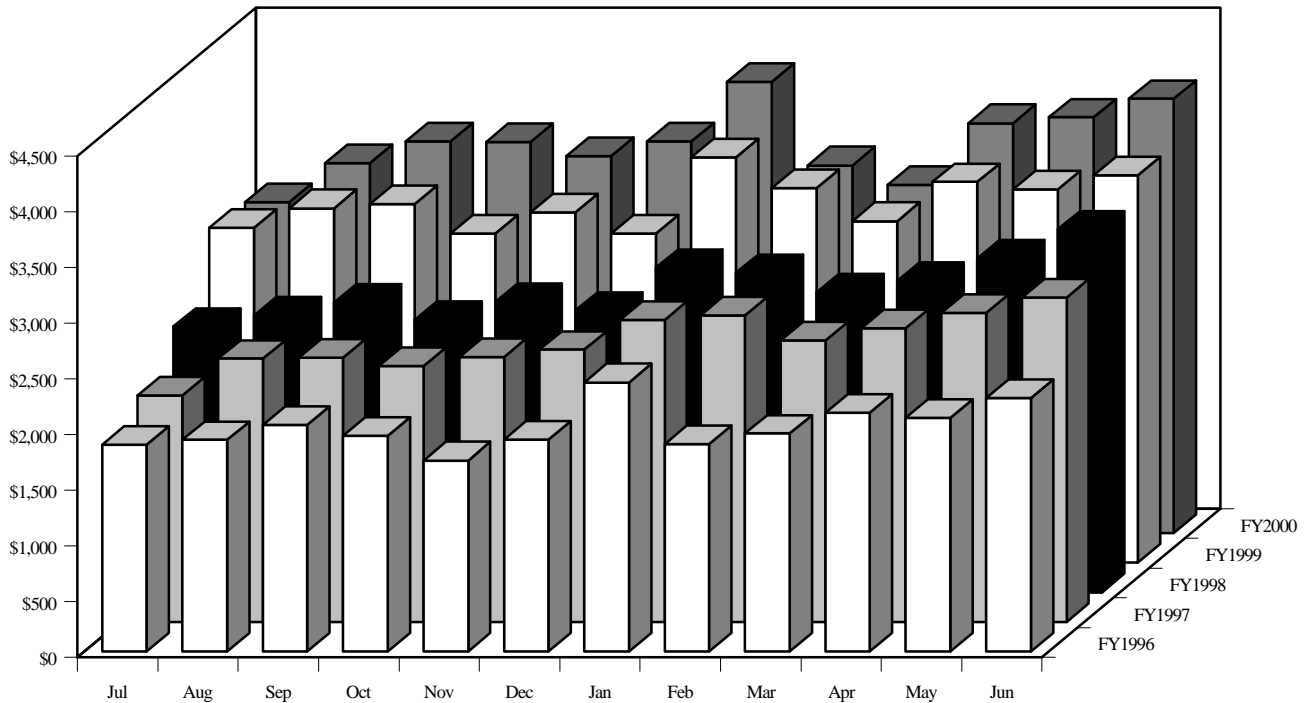
Although the Commonwealth uses a number of funds for financial reporting purposes, cash is concentrated in a few accounts under the control of the State Treasurer. These accounts support all payments of state funds, while available cash balances are kept actively invested in secure, short-term securities. Of these accounts, the *general account* of the State Treasury is the most important because it includes cash from the great majority

of the various state funds. These cash balances are monitored daily to ensure that funds are available to meet the obligations of the Commonwealth, and to maximize investment earnings on the available cash balances.

Figure 17 shows the monthly cash balances of the general account for the last five fiscal years. As shown in the figure, cash balances have grown significantly over the five-year period.

The general account had an average daily investment balance of \$3.7 billion during FY 2000. Earnings by the Treasury were \$194.7 million. The Treasury measures its investment results monthly against comparable investment indices and is able to consistently outperform them.

Figure 17
General Account Cash Balances
By Month, FY 1996 - FY 2000
(Dollars in Millions)



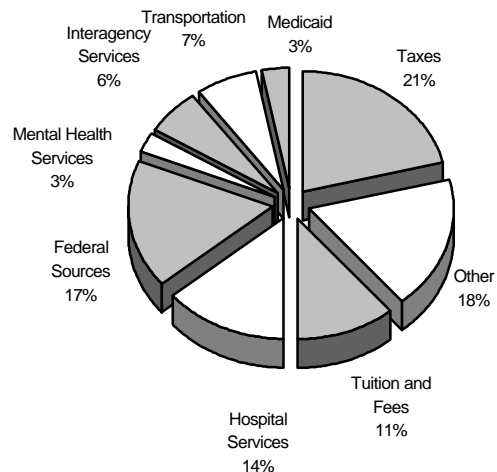
Accounts Receivable

At the end of FY 2000 state government was owed \$1.7 billion. These amounts owed to the state are classified as *accounts receivable*, and are subject to a variety of collection programs. As is true with private businesses, a certain proportion of state accounts receivable are not expected to be collected, and these are classified as "doubtful" or "uncollectible" accounts. The balance is considered collectible. Of the \$1.7 billion owed, \$720 million was considered collectible. These amounts are owed to the state from a variety of different sources (**Figure 18**).

Eight state agencies had the majority of all accounts receivable at the end of FY 2000 (**Figure 19**).

The largest sources of uncollectible receivables in state government include: unpaid tax assessments, fines and penalties levied by the State's courts, patient billings for services provided by mental hospitals and indigent care programs at the teaching hospital, unrecovered overpayments to Medicaid providers, and unpaid bills owed by businesses for unemployment insurance and workers' compensation insurance.

Figure 18
Collectible Receivables by Type
As of June 30, 2000



Largest Accounts Receivable Agencies

As of June 30, 2000

Dollars In Thousands

Figure 19

<u>Agency/Institution</u>	<u>Gross</u>	<u>Allowance For Uncollectible Accounts</u>	<u>Collectible</u>
Department of Taxation	\$ 746,635	\$ 621,513	\$ 125,122
UVA - Medical Center	121,455	9,178	112,277
Department of Social Services	70,341	0	70,341
Department of Education	63,009	14	62,995
Department of Transportation	50,422	385	50,037
Courts of Justice System	345,998	307,987	38,011
Virginia Employment Commission	42,975	10,373	32,602
Virginia Polytechnic Institute and State University	25,366	1,248	24,118
Total	1,466,201	950,698	515,503
All Other Agencies	252,925	48,038	204,887
Grand Total	\$ 1,719,126	\$ 998,736	\$ 720,390

Accounts Payable

State government places a significant emphasis on ensuring that vendors doing business with state agencies are paid within the time specified in the purchase contract. Payment performance is monitored monthly, and overdue payments entitle vendors to collect interest. Agencies must achieve a 95% compliance rate with all payment provisions in order to be considered in compliance with the Virginia Prompt Payment Act.

Figure 20 shows that for FY 2000, the state made 97.1% of its payments on time, and that 94.4% of the dollars owed were paid out in compliance with prompt payment requirements. The state paid out \$41,611 in interest on late payments during FY 2000 on total vendor payments of \$3.8 billion.

Figure 20

Statewide Prompt Payment Statistics

For FY 2000

Number of Late Payments	74,310
Total Number of Payments	2,577,442
Late Dollars (Thousands)	\$213,725
Total Dollars (Thousands)	\$3,797,968
Interest Paid	\$41,611
Percent of Payments in Compliance	97.1%
Percent of Dollars in Compliance	94.4%

Transaction Volumes

Virginia's government finances require that state accounting and financial reporting systems process large numbers of transactions into accounting records. During FY 2000, 10.0 million payment transactions were recorded in the accounts.

Error rates for updates to the accounting records have remained at low levels since FY 1992. This is a strong indication that agency accounting staffs are well trained and capable of carrying out their responsibilities.

Payment Systems

Approximately 70,742 payments totaling \$12.3 billion were made in FY 2000 using electronic payment systems. This helped to avoid the issuance of approximately 164,674 checks. Electronic payments were made to over 3,400 grantees, vendors and localities. Also in FY 2000, approximately \$111.7 million in small purchases (those \$5,000 or less) were made using the small purchase charge card program. This helped to avoid another 401,352 checks. As of June 30, 2000, 186 agencies were using the card.

Further efforts to reduce the amount of resources consumed are made by using electronic systems to make payroll deposits. These include the paychecks of 87,948 employees who are paid through direct deposit to their bank accounts. However, the state still writes approximately 8.3 million checks per year, including 2.1 million tax refunds, 2.9 million social service payments, 1.4 million general warrants, and 640,300 payroll checks.

Personal Property Tax Relief

During FY 1998, the General Assembly passed the Personal Property Tax Relief Act as proposed by Governor Gilmore. This means that the Commonwealth has assumed financial responsibility for a certain portion of the personal property taxes collected by localities over a five-year period beginning in 1998. There is no impact on local revenues. The Commonwealth will fund localities in an amount equal to the amount of tax relief.

Specifically, the tax owed on the first \$20,000 of the value of any car, truck or motorcycle held for personal use will be eliminated by 2002. In 1998, the Commonwealth reimbursed taxpayers directly after they paid their personal property tax bills. Beginning in 1999, personal property tax bills sent by localities show the tax relief as a reduction in the amount owed on the personal property tax bills.

The timetable shown in **Figure 21** shows the schedule for elimination of the personal property tax on the first \$20,000 of the value of qualifying vehicles.

Personal Property Tax Relief

Figure 21

Year	Percentage of Tax Relief
1998	12.5%
1999	27.5%
2000	47.5%
2001	70.0%
2002	100.0%

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) recognized the Commonwealth through its Award for Outstanding Achievement in Popular Annual Financial Reporting for the fiscal year ended June 30, 1999. This is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government popular reports.

In order to receive an Award for Outstanding Achievement in Popular Annual Financial Reporting, a government unit must publish a Popular Annual Financial Report whose contents conform to program standards of creativity, presentation, reader appeal, and understandability. The award is valid for a period of one year only. It is expected that the current report continues to conform to the Popular Annual Financial Reporting requirements.

Award for Outstanding Achievement in Popular Annual Financial Reporting

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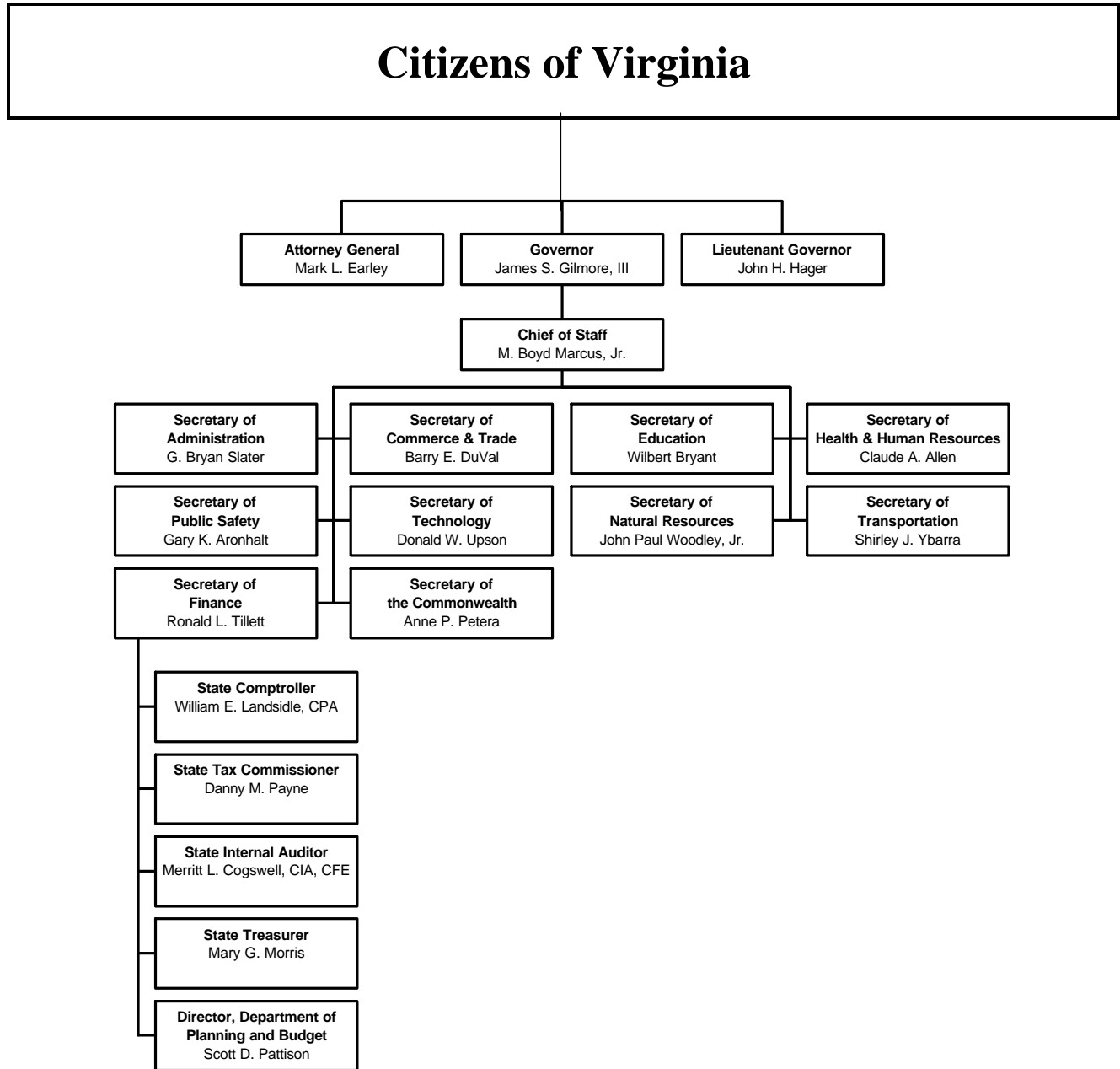
**COMMONWEALTH
OF VIRGINIA**

**For the fiscal year ending
June 30, 1999**



Cary Bruck
President
Jeffrey L. Esser
Executive Director

**Organization of Government
Selected Government Officials - Executive Branch**





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